Multiple Agency Fiscal Note Summary

Bill Number: 1701 S HB	Title: LEOFF benefits

Estimated Cash Receipts

NONE

Agency Name	2021-23		2023-25		2025-27	
	GF- State	Total	GF- State	Total	GF- State	Total
Local Gov. Courts						
Loc School dist-SPI						
Local Gov. Other	No fiscal impact					
Local Gov. Total						

Estimated Operating Expenditures

Agency Name	2021-23				2023-25				2025-27			
	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total	FTEs	GF-State	NGF-Outlook	Total
Department of Retirement Systems	.6	0	0	252,000	.0	0	0	0	.0	0	0	0
State Investment Board	.0	0	0	0	.0	0	0	0	.0	0	0	0
Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board	.0	0	0	0	.0	0	0	0	.0	0	0	0
Actuarial Fiscal Note - State Actuary	.0	(100,000)	(100,000)	(100,000)	.0	(500,000)	(500,000)	(500,000)	.0	(7,900,000)	(7,900,000)	(7,900,000)
Total $	**0.6**	**(100,000)**	**(100,000)**	**152,000**	**0.0**	**(500,000)**	**(500,000)**	**(500,000)**	**0.0**	**(7,900,000)**	**(7,900,000)**	**(7,900,000)**

Agency Name	2021-23			2023-25			2025-27		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Local Gov. Courts									
Loc School dist-SPI									
Local Gov. Other	No fiscal impact								
Local Gov. Total									

Estimated Capital Budget Expenditures

FNPID 64802

Agency Name	2021-23			2023-25			2025-27		
	FTEs	Bonds	Total	FTEs	Bonds	Total	FTEs	Bonds	Total
Department of Retirement Systems	.0	0	0	.0	0	0	.0	0	0
State Investment Board	.0	0	0	.0	0	0	.0	0	0
Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board	.0	0	0	.0	0	0	.0	0	0
Actuarial Fiscal Note - State Actuary	.0	0	0	.0	0	0	.0	0	0
Total $	0.0	0	0	0.0	0	0	0.0	0	0

Agency Name	2021-23			2023-25			2025-27		
	FTEs	GF-State	Total	FTEs	GF-State	Total	FTEs	GF-State	Total
Local Gov. Courts									
Loc School dist-SPI									
Local Gov. Other	No fiscal impact								
Local Gov. Total									

Estimated Capital Budget Breakout

NONE

Prepared by: Marcus Ehrlander, OFM	Phone: (360) 489-4327	Date Published: Final 2/14/2022

Individual State Agency Fiscal Note

Bill Number: 1701 S HB	Title: LEOFF benefits	Agency: 124-Department of Retirement Systems

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

	FY 2022	FY 2023	2021-23	2023-25	2025-27
FTE Staff Years	0.4	0.9	0.6	0.0	0.0
Account					
Department of Retirement Systems Expense Account-State 600-1	75,000	177,000	252,000	0	0
Total $	75,000	177,000	252,000	0	0

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☒ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☒ Requires new rule making, complete Part V.

Legislative Contact:		Phone:	Date: 02/08/2022
Agency Preparation:	Amy McMahan	Phone: 360-664-7307	Date: 02/08/2022
Agency Approval:	Mark Feldhausen	Phone: 360-664-7194	Date: 02/08/2022
OFM Review:	Marcus Ehrlander	Phone: (360) 489-4327	Date: 02/09/2022

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

This substitute bill provides additional pension benefits in Plan 2 of the Law Enforcement Officers' and Fire Fighters' (LEOFF) Retirement System.

Sec. 1(2), beginning January 16, 2023, adds a new formula for the calculation of a member's benefit for any members who are new to LEOFF 2 after February 1, 2021 and earn more than 15 years of service credit. Instead of the historical two (2) percent "multiplier" for all years of service, the retirement allowance will be calculated using 2.5 percent for years of service 16 through 25 but will continue to use 2 percent for years of service before 16 and after 25.

Sec. 1(3) identifies that members who are active in LEOFF 2 as of February 1, 2021 have an irrevocable choice between the new multiplier and a lump sum benefit improvement.

Sec. 1(4) and Sec. 2(6) identify that once members receive a benefit calculated using the new (higher) multiplier or the lump sum benefit improvement, they are not eligible for the other benefit.

Sec. 2(1) provides for a lump sum benefit of $100 per service credit month for members or their beneficiaries. Members who retire(d) as of February 1, 2021 for an in-line of duty disability shall receive the greater of this lump sum or $20,000. Additionally, the designated survivors of members who are deceased as of February 1, 2021 that are currently receiving a lifetime benefit are eligible for the lump sum benefit.

Sec. 2(3) identify that members who are inactive and vested as of February 1, 2021, as well as members who are inactive and not vested as of February 1, 2021 but later become vested, shall have an irrevocable choice between the new multiplier and a lump sum benefit improvement payable at the time of retirement.

Sec. 2(4) identifies that a member who has withdrawn from the plan is not eligible for the lump sum benefit.

Sec. 3(2) provides that the lump sum benefit from Sec. 2(1) may be used to purchase an annuity, with a required minimum payment of $20,000.

The remaining sections of the bill do not have a direct cost impact on DRS as they primarily impact contribution rate setting

Viewing the sections above in the context of a recent member count identifies potential volumes for different transactions.

LEOFF 2 Members (6/30/2021 Summary)
Actives = 18,545
Annuitants = 8,038
Inactives = 4,168
Total = 30,751

- Over 18,000 active members would have a choice on retirement (once they vest and have over 15 years of service) between the higher multiplier in Sec. 1(2) and the lump sum in Sec. 2(1).
- Over 8,000 annuitants will receive the lump sum in Sec. 2(1) and have the option to use it to purchase an annuity in Sec. 3(2).
- A portion of the annuitants with specific duty disability benefits would get a lump sum in Sec. 2(1) that's at least $20,000.
- Transactions for the 4,000 inactive members will depend on whether or not they are vested and the number of years of service they earn.

- Inactive/vested members (with over 15 years of service) would eventually have a choice between the higher multiplier or the lump sum.
- Inactive/non-vested members would have that same choice if they return to service and vest but if they don't vest, they can still request a refund of their member contributions.

The amendments made by the House Appropriations Committee did not change the costs identified in the prior fiscal note.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates . Distinguish between one time and ongoing functions .

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

ADMINISTRATIVE ASSUMPTIONS

- Return to Membership re-retirements will use the multiplier rules in place at the time of the original retirement since these members were retired at the time the provisions of this bill would have been enacted.
- The LEOFF 2 service credit year requirement for the lump sum benefit includes any current LEOFF 2 service credit transferred from any previous system transfer windows, such as the EMT transfer window.
- The Purchase Service Credit (PSC) annuity will still utilize the 2% formula, even if a LEOFF 2 retiree elected for the tiered multiplier benefit at the time of retirement.
- Normal Duty Disabled LEOFF Catastrophic (DDLC) retirement offset provisions apply even if the tiered multiplier is applied to the retirement benefit. If the lump sum option is selected, no offset provisions would be applied to the lump sum.
- LEOFF 2 retirees who returned to membership and were active members on February 1, 2021 will have the choice between the new multiplier and lump sum benefit when they re-retire.
- LEOFF 2 retirees who return to active membership after February 1, 2021 were considered retired on February 1, 2021, and therefore are only eligible for the lump sum benefit. Upon re-retirement, the calculation multiplier at the time of their original retirement will be used.
- The withholding of the lump sum benefit will be treated as part of a pension payment, and will not be subject to the standard 20% withholding for lump sum payments.
- Legal Order Payees or Legal Order Split recipients are not eligible for the provisions of this bill.
- All LEOFF 2 service credit established through optional bills are counted towards the tiered multiplier benefit.
- Should a LEOFF 2 retiree who receives the lump sum benefit elect to annuitize the lump sum via the Purchase an Annuity (PAA) option and then return to LEOFF membership, DRS will continue to pay the PAA through their membership.
- DRS would begin implementation as soon as the bill is signed which is estimated to be April 2022.

To implement this legislation DRS will:

- Confirm project scope, timeline, and conduct project implementation tasks,
- Conduct legal analysis, business analysis and business process design,
- Complete systems changes-which includes defining system requirements, coding system changes in our web and Linux applications, testing, and deploying those changes
- Identify impacted members,
- Update agency WACs,
- Update member handbooks and communicate to members by mail, and
- Update the DRS administrative manual and train team members.

To support this implementation, DRS will form a project team that will include a project manager, business analyst, web programmer, communication consultant, fiscal analyst, management analyst, rules coordinator, legal and compliance manager, and retirement specialist.

DRS will also hire a contractor to implement changes to Linux applications and seek legal advice from outside legal counsel to ensure IRS compliance.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2022	FY 2023	2021-23	2023-25	2025-27
600-1	Department of Retirement Systems Expense Account	State	75,000	177,000	252,000	0	0
		Total $	75,000	177,000	252,000	0	0

III. B - Expenditures by Object Or Purpose

	FY 2022	FY 2023	2021-23	2023-25	2025-27
FTE Staff Years	0.4	0.9	0.6		
A-Salaries and Wages	36,000	85,000	121,000		
B-Employee Benefits	11,000	27,000	38,000		
C-Professional Service Contracts	26,000	61,000	87,000		
E-Goods and Other Services	2,000	4,000	6,000		
G-Travel					
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total $	75,000	177,000	252,000	0	0

III. C - Operating FTE Detail: *List FTEs by classification and corresponding annual compensation . Totals need to agree with total FTEs in Part I and Part IIIA*

Job Classification	Salary	FY 2022	FY 2023	2021-23	2023-25	2025-27
Communications Consultant 5	84,396	0.0	0.0	0.0		
Contracts/Rules Specialist	86,940		0.0	0.0		
Fiscal Analyst 5	78,408	0.0	0.0	0.0		
IT Application Develop-Snr/Spec	112,176	0.0	0.1	0.1		
IT Business Analyst-Journey	96,888	0.1	0.3	0.2		
IT Project Manager-Mgr	123,636	0.1	0.2	0.2		
Legal Services Program Manager	102,468	0.0	0.0	0.0		
Management Analyst 5	88,644	0.0	0.0	0.0		
Retirement Specialist 3	61,224	0.1	0.1	0.1		
Total FTEs		0.4	0.9	0.6		0.0

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Identify acquisition and construction costs not reflected elsewhere on the fiscal note and describe potential financing methods

NONE

IV. D - Capital FTE Detail: *List FTEs by classification and corresponding annual compensation . Totals need to agree with total FTEs in Part IVB*

NONE

Part V: New Rule Making Required

Identify provisions of the measure that require the agency to adopt new administrative rules or repeal/revise existing rules .

Relevant WACs must be revised as a result of this legislation.

Individual State Agency Fiscal Note

Bill Number: 1701 S HB	Title: LEOFF benefits	Agency: 126-State Investment Board

Part I: Estimates

☒ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

NONE

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact . Factors impacting the precision of these estimates , and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☐ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia , complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia , complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:		Phone:	Date: 02/08/2022
Agency Preparation:	Celina Verme	Phone: (360) 956-4740	Date: 02/08/2022
Agency Approval:	Allyson Tucker	Phone: 360-956-4710	Date: 02/08/2022
OFM Review:	Marcus Ehrlander	Phone: (360) 489-4327	Date: 02/09/2022

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

The Washington State Investment Board expects no operational or investment impacts resulting from revisions to the Substitute bill.

Section 7 (3) and (4) state:

- (3) By July 31, 2022, the Washington state investment board shall transfer the difference between the value of the benefit enhancements in this act as identified by the office of the state actuary and the value of the local law enforcement officers' and firefighters' retirement system benefits improvement account, from the law enforcement officers' and firefighters' system plan 2 retirement fund to the local law enforcement officers' and firefighters' retirement system benefits improvement account.

- (4) By August 31, 2022, the Washington state investment board shall transfer the total available balance of the local law enforcement officers' and firefighters' retirement system benefits improvement account to the law enforcement officers' and firefighters' system plan 2 retirement fund. The amount transferred under this subsection goes toward the benefit enhancements in this act.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

NONE

III. B - Expenditures by Object Or Purpose

NONE

III. C - Operating FTE Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

NONE

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Identify acquisition and construction costs not reflected elsewhere on the fiscal note and describe potential financing methods

NONE

IV. D - Capital FTE Detail: *List FTEs by classification and corresponding annual compensation . Totals need to agree with total FTEs in Part IVB*

NONE

Part V: New Rule Making Required

Individual State Agency Fiscal Note

Bill Number: 1701 S HB	Title: LEOFF benefits	Agency: 341-Law Enforcement Officers and Fire Fighters' Plan 2 Retirement Board

Part I: Estimates

[X] **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

NONE

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact . Factors impacting the precision of these estimates , and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

[ ] If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

[ ] If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

[ ] Capital budget impact, complete Part IV.

[ ] Requires new rule making, complete Part V.

Legislative Contact:		Phone:	Date: 02/08/2022
Agency Preparation:	Seth Flory	Phone: (360) 407-8165	Date: 02/09/2022
Agency Approval:	Seth Flory	Phone: (360) 407-8165	Date: 02/09/2022
OFM Review:	Marcus Ehrlander	Phone: (360) 489-4327	Date: 02/09/2022

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

Substitute House Bill 1701 would amend RCW 41.26.420, regarding Law Enforcement Officers' and Fire Fighter's benefits, to create a tiered multiplier for retirement allowances and provide lump sum payouts. The bill also adds an annuity option to RCW 41.26.463 and additional guidelines for the minimum contribution rate outlined in RCW 41.45.155. Additionally, this legislation would freeze the LEOFF Plan 2 contribution rate through fiscal year 2025. In order to pay the costs of the benefits changes, section 7 of the bill requires funds to be transferred into the LEOFF Plan 2 account.

This legislation will not have a significant impact on the Law Enforcement Officers' and Fire Fighters' Plan 2 Retirement Board's (LEOFF) operations. LEOFF is already well prepared to communicate any changes to retirement benefits as they occur, so no fiscal impact is expected.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

NONE

III. B - Expenditures by Object Or Purpose

NONE

III. C - Operating FTE Detail:

List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA

NONE

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Identify acquisition and construction costs not reflected elsewhere on the fiscal note and describe potential financing methods

NONE

IV. D - Capital FTE Detail: *List FTEs by classification and corresponding annual compensation . Totals need to agree with total FTEs in Part IVB*

NONE

Part V: New Rule Making Required

Individual State Agency Fiscal Note

Bill Number: 1701 S HB	Title: LEOFF benefits	Agency: AFN-Actuarial Fiscal Note - State Actuary

Part I: Estimates

☐ **No Fiscal Impact**

Estimated Cash Receipts to:

NONE

Estimated Operating Expenditures from:

	FY 2022	FY 2023	2021-23	2023-25	2025-27
Account					
General Fund-State 001-1	0	(100,000)	(100,000)	(500,000)	(7,900,000)
Total $	0	(100,000)	(100,000)	(500,000)	(7,900,000)

Estimated Capital Budget Impact:

NONE

The cash receipts and expenditure estimates on this page represent the most likely fiscal impact. Factors impacting the precision of these estimates, and alternate ranges (if appropriate), are explained in Part II.

Check applicable boxes and follow corresponding instructions:

☒ If fiscal impact is greater than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete entire fiscal note form Parts I-V.

☐ If fiscal impact is less than $50,000 per fiscal year in the current biennium or in subsequent biennia, complete this page only (Part I).

☐ Capital budget impact, complete Part IV.

☐ Requires new rule making, complete Part V.

Legislative Contact:		Phone:	Date: 02/08/2022
Agency Preparation:	Aaron Gutierrez	Phone: 360-786-6152	Date: 02/08/2022
Agency Approval:	Lisa Won	Phone: 360-786-6150	Date: 02/08/2022
OFM Review:	Marcus Ehrlander	Phone: (360) 489-4327	Date: 02/09/2022

Part II: Narrative Explanation

II. A - Brief Description Of What The Measure Does That Has Fiscal Impact

Briefly describe by section number, the significant provisions of the bill, and any related workload or policy assumptions, that have revenue or expenditure impact on the responding agency.

II. B - Cash receipts Impact

Briefly describe and quantify the cash receipts impact of the legislation on the responding agency, identifying the cash receipts provisions by section number and when appropriate the detail of the revenue sources. Briefly describe the factual basis of the assumptions and the method by which the cash receipts impact is derived. Explain how workload assumptions translate into estimates. Distinguish between one time and ongoing functions.

II. C - Expenditures

Briefly describe the agency expenditures necessary to implement this legislation (or savings resulting from this legislation), identifying by section number the provisions of the legislation that result in the expenditures (or savings). Briefly describe the factual basis of the assumptions and the method by which the expenditure impact is derived. Explain how workload assumptions translate into cost estimates. Distinguish between one time and ongoing functions.

Part III: Expenditure Detail

III. A - Operating Budget Expenditures

Account	Account Title	Type	FY 2022	FY 2023	2021-23	2023-25	2025-27
001-1	General Fund	State	0	(100,000)	(100,000)	(500,000)	(7,900,000)
		Total $	0	(100,000)	(100,000)	(500,000)	(7,900,000)

III. B - Expenditures by Object Or Purpose

	FY 2022	FY 2023	2021-23	2023-25	2025-27
FTE Staff Years					
A-Salaries and Wages					
B-Employee Benefits		(100,000)	(100,000)	(500,000)	(7,900,000)
C-Professional Service Contracts					
E-Goods and Other Services					
G-Travel					
J-Capital Outlays					
M-Inter Agency/Fund Transfers					
N-Grants, Benefits & Client Services					
P-Debt Service					
S-Interagency Reimbursements					
T-Intra-Agency Reimbursements					
9-					
Total $	0	(100,000)	(100,000)	(500,000)	(7,900,000)

III. C - Operating FTE Detail: *List FTEs by classification and corresponding annual compensation. Totals need to agree with total FTEs in Part I and Part IIIA*

NONE

III. D - Expenditures By Program (optional)

NONE

Part IV: Capital Budget Impact

IV. A - Capital Budget Expenditures

NONE

IV. B - Expenditures by Object Or Purpose

NONE

IV. C - Capital Budget Breakout

Identify acquisition and construction costs not reflected elsewhere on the fiscal note and describe potential financing methods

NONE

IV. D - Capital FTE Detail: *List FTEs by classification and corresponding annual compensation . Totals need to agree with total FTEs in Part IVB*

NONE

Part V: New Rule Making Required

SUMMARY OF RESULTS

BRIEF SUMMARY OF BILL: This bill creates a benefit improvement for LEOFF 2 members, establishes a new minimum contribution rate for the plan, and caps LEOFF 2 contribution rates through the 2023-25 Biennium.

COST SUMMARY

Impact on Contribution Rates *(Effective 9/1/2022)*	
FY 2023 State Budget	**LEOFF 2**
Employee	0.00%
Employer	0.00%
State	0.00%

Budget Impacts			
(Dollars in Millions)	**2022-2023**	**2023-2025**	**25-Year**
General Fund-State	($0.1)	($0.5)	($132.7)
Local Government	($0.2)	($0.7)	($196.0)
Total Employer	**($0.4)**	**($1.1)**	**($328.7)**

Note: We use long-term assumptions to produce our short-term budget impacts. Therefore, our short-term budget impacts will likely vary from estimates produced from other short-term budget models.

HIGHLIGHTS OF ACTUARIAL ANALYSIS

- This bill expands benefits for current and future members of LEOFF Plan 2 either through larger pension benefits or a one-time lump sum payment. We estimate this bill will increase plan liabilities by approximately 7 percent ($1.13 billion).
- The increase in plan costs from this bill are offset by changes to the minimum rate funding policy. We assume the Board will adopt future rates based on the greater of the Aggregate rate or the applicable minimum rate under this bill. We expect the savings from the new funding policy to exceed the cost of the benefit improvements.
- The contribution rate offset in Section 8 of the bill only applies when the funded status is below 110 percent. We expect the funded status to remain above 110 percent starting in FY 2026 and thus the offset will not impact the funding described in the Cost Summary above.
- There are no contribution rate impacts through the 2023-25 Biennium because those rates are capped. Following the 2023-25 Biennium, we expect lower rates (and budget savings) compared to current law when the contribution rates reflect the lower minimum rate under this bill.
- We assume members will retire earlier than under current law once they reach 25 YOS. If retirement behavior doesn't change, we expect additional savings and estimate a 25-year total employer budget savings of $396 million. If members retire earlier than we assumed, we expect less savings than what is outlined in the Cost Summary above.
- We expect the increased plan costs and funding policy changes will worsen the plan's solvency and affordability risks. For example, we estimate the chance that total employer contribution rates exceed 10 percent of pay will increase from 7 percent to 15 percent in 2030.

See the remainder of this fiscal note for additional details on the summary and highlights presented here.

WHAT IS THE PROPOSED CHANGE?

Summary of Bill

This bill impacts the following systems:

- Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2.

This bill enacts two benefit improvements, establishes new minimum contribution rates, and freezes contribution rates through the 2023-25 Biennium.

Benefit Improvements

This bill enacts two benefit improvements. Members are eligible for one or the other as determined by their status, hire date, and for some members, choice.

Benefit Multiplier

This benefit improvement increases the member's benefit multiplier from 2.0 percent to 2.5 percent for years 15-25 (ten years maximum). Please see the **Current Situation** section for more information on how the multiplier works.

Lump Sum

The lump sum is a one-time payment of $100 per service credit month. Members who receive the lump sum may use those funds to purchase an annuity from the LEOFF 2 Trust Fund as defined in Revised Code of Washington (RCW) 41.26.463, and subject to a minimum purchase of $20,000.

Eligibility

If the member is:

- Hired on or before February 1, 2021:
  - At retirement, they will receive the choice of:
    - ◊ The increased multiplier; or
    - ◊ The lump sum.
  - Members who are inactive may be eligible if they return to the system and retire.
- Hired after February 1, 2021:
  - And if the member has 15 Years of Service (YOS) or more, beginning January 16, 2023, they will receive the increased multiplier.
- Retired on or before February 1, 2021:
  - They will receive the lump sum.

- ◊ The lump sum is payable on January 31, 2023, if the member is already retired.
- ◊ If deceased on or before the same date, their eligible beneficiary may receive the same.
- ◊ If the member retired for a line-of-duty disability, or a survivor of someone who suffered a duty-related death, the member will receive the greater of either the lump sum as defined above, or $20,000.

Minimum Contribution Rates

Except as described in the next section, on June 30 of each even numbered year if the most recent valuation performed by the Office of the State Actuary (OSA) shows a funded status of:

- ❖ Less than 105 percent, then the minimum contribution rates for both employers and members will be the total contribution rate required to fund 100 percent of the Plan 2 employer normal cost as calculated under the Entry Age Normal (EAN) cost method.
- ❖ 105 percent to 110 percent, then the minimum contribution rates for both employers and members will be the total contribution rate required to fund 90 percent of the Plan 2 employer normal cost as calculated under the EAN cost method.
- ❖ Greater than or equal to 110 percent, then the minimum contribution rates for both employers and members will be the total contribution rate required to fund 80 percent of the Plan 2 employer normal cost as calculated under the EAN cost method.

These minimum rates cannot be changed by the LEOFF 2 Board.

Rate Cap

For the 2021-23 and 2023-25 Biennia, contribution rates are capped at the levels adopted by the LEOFF 2 Board in 2021.

Offset Rate and Funds Transfer

It is anticipated that the current balance of the Benefit Improvement Account (BIA) is insufficient to pay the total cost. By July 31, 2022, OSA must calculate the cost of the benefit improvements in this bill. The Washington State Investment Board (WSIB) will then compare the cost to the balance in the BIA and transfer the difference from the LEOFF 2 Trust Fund into the BIA. Then, by August 31, 2022, WSIB will transfer the total balance of the BIA to the LEOFF 2 Trust Fund.

The bill states that this transfer is intended to pay the entire cost of the benefit improvements, and that the minimum rates should not increase for current members as a result of the improvements. Further, OSA must calculate an offset rate (i.e., a negative contribution rate) to be applied. This rate must go into effect

June 1, 2025, and is to be calculated using methods and assumptions OSA believes is appropriate for such a calculation.

Effective Date: 90 days after session.

In this summary, we only include changes pertinent to our Actuarial Fiscal Note (AFN). See the legislative bill report for a complete summary of the bill.

HOW THE SUBSTITUTE DIFFERS FROM THE ORIGINAL VERSION

The following list includes only the changes that impact the pricing of the bill. For a complete list of changes to the current version of the bill, please refer to the bill reports prepared by legislative staff.

- Adds a third tier to the minimum rate section. In addition to the above, if the funded status is greater than or equal to 110 percent, then the minimum contribution rate for the total employer and member normal cost shall equal the total contribution rate required to fund 80 percent of the Plan 2 employer normal cost.
- States that the rate reduction calculated by OSA only needs to be done in scenarios where the funded status, as determined under Section 5 of the bill, is less than 110 percent.
- Adjusts some of the dates in the bill.

What Is the Current Situation?

The LEOFF 2 BIA (L2-BIA) is a separate account from the LEOFF 2 Trust Fund; meaning the funds in the account are not considered when conducting a valuation of the LEOFF 2 retirement plan. Prior to 2019 there was a mechanism in law for transferring money into that account. See RCW 41.26.802 for more information.

As the name suggests, funds in that account were to be used for improving benefits for LEOFF 2 members.

At retirement, a LEOFF 2 member receives a benefit calculated as follows:

$$\text{Service Credit} \times \text{Benefit Multiplier} \times \text{Final Average Salary}$$

That benefit multiplier has been 2 percent since the system was created.

In even-numbered years, the Board is required to adopt contribution rates for the plan. On July 22, 2020, the Board adopted contribution rates for the 2021-23 and 2023-25 Biennia. See Section 105 of the bill, RCW 41.45.0604, or the LEOFF 2 website for more information on this process.

Who Is Impacted and How?

We expect this bill will affect all current active members and annuitants of LEOFF 2 through improved benefits (either via an increased multiplier or lump sum payment). In addition, we expect future active members will also receive an improved benefit via an increased benefit multiplier if they accrue at least 15 YOS.

Under current law and current assumptions, the average LEOFF 2 active member who reaches retirement eligibility is expected to retire at approximately age 58 with 29 YOS. If the member elects the improved benefit multiplier then the multiplier at retirement for the average member changes as follows.

Current Law: 29 YOS × 2% Multiplier = 58%
This Bill: 19 YOS × 2% Multiplier + 10 YOS × 2.5% Multiplier = 63%

This means the average member's benefit will increase by about 9 percent because of the additional 0.5 percent multiplier for each YOS between 15 and 25 years. The actual increase for each member will vary depending on how many YOS they work.

The amount of the lump sum payment is dependent upon the YOS accrued by the eligible recipient. As of the valuation data used in this analysis, the average service of an eligible annuitant is approximately 24 years. Given this, an average retiree or survivor is expected to receive a $28,800 ($1,200 * 24 = $28,800) payment. Some eligible annuitants may also have a minimum lump sum payment of $20,000.

The benefit improvement under this bill increases projected contribution rates for the plan; however, the bill adds three funding policy components that limit or reduce contribution rates:

- **Capped Rates for Three Years:** The LEOFF 2 benefit improvement does not increase LEOFF 2 contribution rates in Fiscal Year (FY) 2023 or the 2023-25 Biennium because the bill caps the rates at the levels adopted by the Board at their July 2020 meeting.
- **Minimum Rate Funding Policy**: The bill codifies a new minimum rate funding policy that adjusts based on the funded status of the plan. Based on our current projections of the plan, we expect future LEOFF 2 rates will be adopted under the lowest (80 percent) tier of the minimum rate policy. Please see the **What Is the Proposed Change** section for additional details.
- **Minimum Rate Offset:** Starting with the 2025-27 Biennium, a negative rate or "offset" is applied to rates if the funded status is lower than 110 percent. Based on our current funding projections of the plan, we do not expect future LEOFF 2 rates will be impacted by the offset.

We expect the savings from the reduction in the minimum rate to exceed the cost of the benefit improvements. Any change in contribution rates will be paid by members, employers, and the state based on the current funding policy in statute.

WHY THIS BILL HAS A COST/SAVINGS AND WHO PAYS FOR IT

Why This Bill Has a Cost/Savings

This bill has a cost to LEOFF 2 because it provides larger benefits to members than under current law. The cost of the improved benefits is offset by changes to the minimum rate funding policy resulting in a net savings.

In addition, we estimate savings through the 2023-25 Biennium resulting from an expected change in retirement behavior.

Who Will Pay for These Costs/Savings?

Any change in the contribution rate is divided according to the standard funding method for LEOFF Plan 2: 50 percent member, 30 percent employer, and 20 percent state. Rates aren't impacted until the 2025-27 Biennium because the bill caps the rates at the currently adopted levels through the 2023-25 Biennium.

HOW WE VALUED THESE COSTS/SAVINGS

We modeled the current law cost of the retirement systems using our most recent actuarial valuation *June 30, 2020, Actuarial Valuation Report (AVR)* and assumptions and methods found on our Projections webpage. We also reflected the economic assumptions adopted by the LEOFF 2 Board during the 2021 Interim. This set of assumptions, methods, and data form our new "base model."

To analyze the impact of this bill, we then adjusted the following assumptions, methods, and data used in the base model.

Assumptions We Made

We assumed active LEOFF 2 members will change their retirement behavior because of the larger benefits earned under this bill. More specifically, we assume member behavior will change after earning 25 YOS. Please see **Appendix A** for more information.

We assumed all eligible active members who reach at least 15 YOS would elect to receive the increased benefit multiplier instead of the lump sum. We estimate most members receive a larger expected increase in lifetime benefits from the multiplier compared to the lump sum option.

We relied on the active and annuitant populations as of our latest June 30, 2020, AVR to estimate the number of members eligible for the benefit multiplier increase or lump sum benefit. We considered adjusting both populations for mortality, new hires, and additional retirements that may have occurred since the measurement date; however, we expect the net impact of these modifications are not material to the pricing results and thus chose not to make the adjustments. If the actual number or accrued service of eligible members is more or less than expected the cost of these provisions of the bill will correspondingly be higher or lower.

For the purposes of this fiscal note, we estimated the total employer minimum rate offset to be 0.76 percent for 15 years based on application of the EAN cost method to additional assets coming from the L2-BIA. Under this bill, the offset applies to the minimum rates when the funded status is less than 110 percent. Where applicable, we assumed the minimum rate is calculated first and then the 0.76 percent rate offset is applied. However, the rate offset does not impact our best estimate results based on projections of funded status exceeding 110 percent for the next 25 years. Please see **Appendix D** for details on the calculation of the rate offset.

How We Applied These Assumptions

To determine the impacts to LEOFF 2, we updated our valuation and projections model with the provisions and assumptions related to this bill as follows:

- We increased the active member benefit multiplier from 2.0 to 2.5 percent for service earned between 15 and 25 years.
- We updated the retirement rates assumption for members earning at least 25 YOS.
- The plan obligations for current annuitants were increased consistent with the language from this bill.
- We adjusted the June 30, 2019, plan valuation assets to model transfers between the trust and L2-BIA. As of June 30, 2021, the L2-BIA had approximately $450 million in assets.
  - We calculated the required transfer amount from the LEOFF 2 Trust Fund such that the L2-BIA would hold the entire cost of additional benefits from this bill.
  - We then transferred the L2-BIA balance back to the trust and collected the impacts on plan measures.
- Beginning in FY 2026, we applied the new LEOFF 2 minimum rate funding policy and rate offset, if applicable, and assumed all future contribution rates are adopted according to the policy.

The fiscal impact of this bill represents the change in projected contributions. To estimate the fiscal impact of this bill, we compared projected pension contributions under current law to the projected contributions we expect under this bill. The projected pension contributions reflect contributions from the current members as well as future hires. Please see **Appendix B** for more information.

Special Data Needed

The Department of Retirement Systems provided an estimate of 23 members experiencing a duty-death with no current survivor receiving a pension. We assumed these members would receive the $20,000 lump sum benefit.

Otherwise, we developed this analysis using the same data as disclosed in the AVR.

ACTUARIAL RESULTS

Summarized Results

Summarized Impacts of Bill Provisions - *Measured at 6/30/2019*				
	Member Contribution Rates*		Plan	Funded
(Dollars in Millions)	Minimum	Aggregate	Assets	Ratio
Current Law	**8.25%**	**7.79%**	**$13,294**	**105.2%**
Changes from Bill				
(A) Benefit Improvement	0.68%	2.44%	$0	(6.4%)
(B) LEOFF 2 Trust to BIA Asset Transfer	0.0%	1.52%	($733)	(5.5%)
(C) BIA to LEOFF 2 Trust Asset Transfer	0.0%	(2.33%)	$1,126	8.4%
(D) New Minimum Rate**	(0.99%)	0.0%	$0	0.0%
(E) Apply Minimum Rate Offset	0.0%	0.0%	$0	0.0%
Total Change (A + B + C + D + E)	**(0.32%)**	**1.63%**	**$393**	**(3.5%)**
This Bill (Current Law + Total Change)	**7.93%**	**9.42%**	**$13,687**	**101.7%**

Note: Totals may not agree due to rounding.
**Contribution rates for local employers and the state are a 60/40 split of the member rate, respectively.*
***Minimum contributions based on 80% of EANC rate. Our model assumes the funded status will exceed 110 percent when calculating rates for the 2025-27 Biennium and beyond.*

The table above shows the impacts on key plan measures for each provision of the bill described below. The sections following will show results for all provisions in total. Please note that these are estimates based on a June 30, 2019, measurement.

A. **Benefit Improvement –** The bill increases the benefits of all LEOFF 2 members resulting in contribution rate increases under the minimum rate policy and Aggregate cost method. Benefit increases are also provided for service earned in the past, resulting in a decrease to funded status.

B. **LEOFF 2 Trust to BIA Asset Transfer –** On June 30, 2022, WSIB transfers the difference between the total cost of the benefit improvements ($1,126 million) and the current level of the L2-BIA ($393 million) from the LEOFF 2 Trust Fund to the BIA. The loss of assets in the LEOFF 2 Trust Fund increases Aggregate rates and decreases funded status. Minimum rates are not impacted by changes in plan assets.

C. **BIA to LEOFF 2 Trust Asset Transfer –** On July 31, 2022, the entire value of the BIA is transferred back into the trust. Aggregate rates decrease and the funded status increases, but minimum rates are not impacted by changes in plan assets.

D. **New Minimum Rate –** A new tier to the minimum rates is added equal to 80 percent of the Normal Cost under the EAN cost method when the plan is at least 110 percent funded. Our projections estimate the funded ratio will exceed 110 percent when the contribution rates are calculated for the 2025-27 Biennium and beyond. See **Appendix C** for detailed projections.

E. **Apply Minimum Rate Offset –** Where applicable, an "offset" to minimum rates is calculated based on the asset transfer from Step C as required by the bill. The rate offset does not impact the projected contribution rates based on our current projections of the funded status.

How the Liabilities Changed

This bill will impact the actuarial funding of LEOFF 2 by increasing the present value of future benefits payable to the members. The impact of the increasing present value of future benefits payable for current members is shown below.

Impact on Pension Liability *(As of 6/30/2019)*			
(Dollars in Millions)	**Current***	**Increase**	**Total**
Actuarial Present Value of Projected Benefits *(The Value of the Total Commitment to All Current Members)*			
LEOFF 2	$17,111	$1,126	$18,236
Unfunded Entry Age Accrued Liability *(The Value of the Total Commitment to All Current Members Attributable to Past Service that is Not Covered by Current Assets)*			
LEOFF 2	($659)	$425	($235)

Note: Totals may not agree due to rounding.
**Current liabilities measured as of June 30, 2019, and reflect updated economic assumptions adopted by the LEOFF 2 Board.*

How the Assets Changed

This bill will impact the actuarial funding of LEOFF 2 by increasing assets available to pay benefits. The increase in assets is the net result of the L2-BIA transfers performed between June 30, 2022, and July 31, 2022. When measured on June 30, 2019, the net increase to the LEOFF 2 Trust Fund from these transfers is $393 million. In other words, the LEOFF 2 Trust Fund is increased by the amount of the assets currently in the L2-BIA trust.

Actuarial Value of Assets *(As of 6/30/2019)*			
(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Value of Assets *(The Smoothed Value of Assets Used in Contribution Rate Calculations)*			
LEOFF 2	$13,294	$393	$13,687

Note: Totals may not agree due to rounding.

Under this bill, we expect WSIB to transfer $733 million ($1,126 million - $393 million) to the L2-BIA which reflects the difference between the value of benefit enhancements and the amount in the benefit improvement account. Then on July 31, 2022, WSIB will transfer the full amount of the L2-BIA account back to the L2 trust. This amounts to a net asset transfer of $393 million (-$733 million + $1,126 million) as measured on June 30, 2019.

For display purposes only, we relied on a June 30, 2019, measurement date to estimate the net amount transferred. We discounted the $450 million BIA assets, as of June 30, 2021, back two years using the investment return assumption of 7.0 percent.

How the Present Value of Future Salaries (PVFS) Changed

This bill will impact the actuarial funding of LEOFF 2 by decreasing the PVFS of the members. Under this bill, we estimate members will retire earlier which leads to less overall salary to fund pension obligations. The impact of the decreasing PVFS for current members is shown below.

Present Value of Future Salaries *(As of 6/30/2019)*			
(Dollars in Millions)	Current*	Increase	Total
Actuarial Present Value of Future Salaries *(The Value of the Future Salaries Expected to be Paid to Current Members)*			
LEOFF 2	$24,481	($329)	$24,152

Note: Totals may not agree due to rounding.
**Current present value of salaries measured as of June 30, 2019, and reflect updated economic assumptions adopted by the LEOFF 2 Board.*

How Contribution Rates Changed

The table below shows the contribution rates measured on June 30, 2019. The Board has adopted rates for FY 2023 and the 2023-25 Biennium. Based on our projection of plan funded status and the funding policy defined in this bill, we expect contribution rates starting in the 2025-27 Biennium (and throughout the 25 years) will be collected consistent with the lowest tier of the funding policy (80 percent of the Normal Cost under the EAN Cost method).

LEOFF 2 Contribution Rate Impacts			
	Current Law	Bill	Difference
	Aggregate Cost Method		
Employee	7.79%	9.42%	1.63%
Employer	4.67%	5.65%	0.98%
State	3.12%	3.77%	0.65%
	Minimum Rate*		
Employee	8.25%	7.93%	(0.32%)
Employer	4.95%	4.76%	(0.19%)
State	3.30%	3.17%	(0.13%)

**Under current law, minimum rates calculated from 90% of Normal Cost of EAN cost method. Under the bill, minimum rates calculated from 80% of Normal Cost of EAN cost method.*

The contribution rates used for developing the fiscal impacts of this bill rely on projected contribution rates from our projections model. Please see **Appendix C** for more information on projected contribution rates for future biennia. Those projected rates do not match the table above due to assumed changes in plan demographics.

How This Impacts Budgets and Employees

Budget Impacts	
(Dollars in Millions)	**LEOFF**
2022-2023	
General Fund	($0.1)
Non-General Fund	0.0
Total State	**($0.1)**
Local Government	(0.2)
Total Employer	**($0.4)**
Total Employee	**($0.4)**
2023-2025	
General Fund	($0.5)
Non-General Fund	0.0
Total State	**($0.5)**
Local Government	(0.7)
Total Employer	**($1.1)**
Total Employee	**($1.1)**
2022-2047	
General Fund	($132.7)
Non-General Fund	0.0
Total State	**($132.7)**
Local Government	(196.0)
Total Employer	**($328.7)**
Total Employee	**($328.7)**

Note: Totals may not agree due to rounding. We use long-term assumptions to produce our short-term budget impacts. Therefore, our short-term budget impacts will likely vary from estimates produced from other short-term budget models.

We observe a LEOFF 2 savings in FY 2023 and the 2023-25 Biennium because we assume members will retire at a higher rate under this bill than under current law. More retirements lead to a decrease in expected total salary when longer service members leave the system and are replaced with future hires at an assumed lower salary. Savings arise when we apply the currently adopted contribution rates to the new lower salaries.

The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.

Comments on Risk

Actuaries have several methods to test and disclose the risk of future experience unfolding differently than expected. We perform these tests to help our users understand how the systems react under adverse experience. We discuss types of risk and methods to measure the risk on our Commentary on Risk webpage. One method for assessing risk, sensitivity testing, is discussed in the **How the Results Change When the Assumptions Change** section of this fiscal note.

Stochastic modeling is another method for assessing risk, which is performed by our office annually to help us demonstrate and assess the effect of unexpected experience under numerous (i.e., thousands of) potential outcomes. This modeling approach allows us to measure how affordability and funded status can change if investment experience, state revenue growth, and inflation do not match our long-term assumptions. As part of our standard annual work, we develop a Select Measures of Pension Risk table to document our findings. The latest Risk Assessment table can be found here.

We determined that neither using nor updating the Risk Assessment table for this pricing was helpful in understanding changes to plan risk from this bill because it focuses on the state-wide impact to the retirement systems. Instead, we considered two risks specific to LEOFF 2 - variability in contribution rates and variability in funded status.

Under this bill, the increase in liabilities results in increases to contribution rates and the long-term expected costs of the plan. However, the change to plan funding policy decreases contribution rates and leads to net long-term expected savings. To understand how these changes impact the risks of the plan, we considered how results can vary under thousands of simulated economic outlooks. Based on our analysis, we expect the chance that contribution rates exceed 10 percent of payroll will increase by approximately 5 to 10 percent over the next thirty years. In addition, the funded status is expected to decrease when compared to results under current law. Please see **Appendix E** for further details.

HOW THE RESULTS CHANGE WHEN THE ASSUMPTIONS CHANGE

In addition to the stochastic analysis described in our **Comments on Risk** section, we performed sensitivity analysis on the one assumption we changed to price this bill – retirement rates in LEOFF 2. While the best estimate results for the lump sum payment won't change with our retirement rate assumption, the best estimate results of the benefit multiplier can vary under a different set of assumptions. To determine the sensitivity of the actuarial results, we varied the retirement rates assumption as follows:

1. No change in retirement rates from current law.
2. Double the best estimate scalar from 10 to 20 percent.

The following table shows a comparison of the 25-year budget impacts under these sensitivity runs. Please see **Appendix A** for more information on the retirement rates for this analysis.

LEOFF 2 Sensitivity – Total Employer 25-Year Budgets		
(Dollars in Millions)		
No Retirement Behavior Changes	Best Estimate	Double Assumed Retirement Changes
($396)	($329)	($269)

The actual cost of this bill may vary from our best estimate and may fall outside the range of cost identified in this section.

ACTUARY'S CERTIFICATION

The undersigned certifies that:

1. The actuarial assumptions, methods, and data used are reasonable for the purposes of this pricing exercise. The use of another set of assumptions, methods and data may also be reasonable and might produce different results.
2. The risk analysis summarized in this AFN involves the interpretation of many factors and the application of professional judgment. We believe that the assumptions, methods, and data used in our risk assessment model are reasonable for the purposes of this pricing exercise. However, the use of another set of assumptions, methods, and data could also be reasonable and could produce different results.
3. We prepared this AFN based on our current understanding of the bill as of the date shown in the footer. If the bill or our understanding of the bill changes, the results of a future AFN based on those changes may vary from this AFN. Additionally, the results of this AFN may change after our next annual update of the underlying actuarial measurements.
4. We prepared this AFN and provided opinions in accordance with Washington State law and accepted actuarial standards of practice as of the date shown in the footer of this AFN.

We prepared this AFN to support legislative deliberations during the 2022 Legislative Session. This AFN may not be appropriate for other purposes.

We advise readers of this AFN to seek professional guidance as to its content and interpretation, and not to rely on this communication without such guidance. Please read the analysis shown in this AFN as a whole. Distribution of, or reliance on, only parts of this AFN could result in its misuse and may mislead others.

The undersigned, with actuarial credentials, meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

While this AFN is meant to be complete, the undersigned is available to provide extra advice and explanations as needed.

Lisa A. Won, ASA, FCA, MAAA
Deputy State Actuary

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APPENDIX A – ASSUMPTIONS WE MADE

Retirement Rates

The following table shows our retirement rates assumption for current law, this bill, and our high sensitivity analysis. The low sensitivity analysis assumed no change to retirement behavior from current law.

LEOFF 2 Retirement Rates					
	Current Law	Best Estimate Bill		High Sensitivity	
Age	All Service	Service < 25	Service >= 25	Service < 25	Service >= 25
50	0.03	0.03	0.03	0.03	0.03
51	0.03	0.03	0.03	0.03	0.03
52	0.05	0.05	0.05	0.05	0.05
53	0.09	0.09	0.10	0.09	0.11
54	0.09	0.09	0.10	0.09	0.11
55	0.09	0.09	0.10	0.09	0.11
56	0.09	0.09	0.10	0.09	0.11
57	0.10	0.10	0.11	0.10	0.12
58	0.14	0.14	0.15	0.14	0.17
59	0.15	0.15	0.17	0.15	0.18
60	0.15	0.15	0.17	0.15	0.18
61	0.19	0.19	0.21	0.19	0.23
62	0.23	0.23	0.25	0.23	0.28
63	0.20	0.20	0.22	0.20	0.24
64	0.20	0.20	0.22	0.20	0.24
65-69	0.30	0.30	0.30	0.30	0.30
70	1.00	1.00	1.00	1.00	1.00

We set our best estimate assumption for this bill by changing retirement behavior once members earn 25 YOS. We assumed the average member earning less than 25 YOS will not change behavior. Members in this group have incentive to both continue working later for the improved multiplier and retire earlier with a larger benefit. We expect this behavior offsets and yields no material change in observed retirements.

We assumed members will retire at higher rates after earning 25 YOS since they will have accrued the maximum service years credited at the 2.5 percent multiplier. We expect the incentive to continue working at the 2.0 percent multiplier, after 25 YOS, will diminish. In addition, their benefit is now larger than under current law so we expect that will lead to additional retirements. We made the following adjustments to retirement rates starting at 25 YOS.

- **Ages 50-52 –** We made no change to retirement rates at these ages. We do not expect the larger benefits under this bill to materially change this behavior because early retirement reductions would apply before age 53.
- **Ages 53-64 –** We applied an approximate 10 percent scalar to our current law assumption for this age range to account for the increased retirement behavior expected under the bill. The scalar was determined as the approximate benefit multiplier ratio under

current law and this bill of the average LEOFF 2 member projected to retirement. We considered a larger adjustment to the assumption but believe the individual costs associated with retiring prior to Medicare and Social Security eligibility will limit the number of additional early retirements.

- **Ages 65+ –** We made no change to retirement behavior for this group. Few LEOFF 2 members remain active beyond 65 and we do not expect the improved benefits under this bill will significantly change their behavior.

APPENDIX B – HOW WE APPLIED THESE ASSUMPTIONS

We estimated the fiscal impact of this bill by comparing projected pension contributions under this bill to contributions under current law. The projected pension contributions reflect contributions for current members as well as future hires.

To determine the projected contributions under current law, or the “base”, we relied on projection system output. Projected pension contributions equal contribution rates from future AVRs multiplied by future payroll.

To determine the projected costs under this bill, we modified the base described above to reflect the provisions of the bill and assumptions noted in the body of this AFN. We then multiplied the respective new contribution rates reflecting these changes by future payroll.

APPENDIX C – HOW CONTRIBUTION RATES CHANGED

Under current law, the Board sets funding policy and adopts contribution rates for the plan. Their funding policy sets contribution rates equal to the greater of the rate under the Aggregate cost method or minimum rate. The minimum rate is set at either 90 percent or 100 percent of the Normal Cost under the EAN cost method dependent upon funding levels of the plan. This policy seeks to maintain relatively stable contribution rates between biennia.

The bill changes the minimum rate funding policy and adds it into law. The change includes a new tier equal to 80 percent of the Normal Cost under the EAN cost method when the plan is at least 110 percent funded. As discussed in **What Is the Proposed Change** section, the plan will have different funding requirements if the funding levels are less than 110 percent.

The funding policy under this bill is projected to select 80 percent of the minimum rate for each biennium starting in 2025-27. This is based on our estimate of the projected funded status and assuming future experience matches the assumptions. In addition, the rate offset in Section 8 of the bill will not apply. However, the actual rates collected are subject to adoption by the LEOFF 2 Board.

The following table shows our projection of member contribution rates and funded status over the following four biennia. Note, we do not expect any change to the FY 2023 and the 2023-25 Biennium contribution rates because the Board has already adopted rates for this period and the bill caps rates at that level.

Projected LEOFF 2 Member Contribution Rates and Funded Status

Biennium	2025-27	2027-29	2029-31	2031-33
Current Law				
Aggregate Rate	3.92%	1.75%	0.00%	0.00%
90% Minimum Rate	8.32%	8.36%	8.40%	8.44%
Adopted*	**8.32%**	**8.36%**	**8.40%**	**8.44%**
Funded Status**	118.1%	124.5%	129.7%	132.2%
This Bill				
Aggregate Rate	5.96%	4.03%	2.43%	1.67%
80% Minimum Rate	8.00%	8.04%	8.08%	8.11%
Adopted*	**8.00%**	**8.04%**	**8.08%**	**8.11%**
Funded Status*	112.8%	118.3%	122.4%	124.0%
Difference				
Aggregate Rate	2.04%	2.28%	2.43%	1.67%
Minimum Rate	(0.32%)	(0.32%)	(0.32%)	(0.33%)
Adopted*	**(0.32%)**	**(0.32%)**	**(0.32%)**	**(0.33%)**
Funded Status**	(5.3%)	(6.2%)	(7.3%)	(8.2%)

Note: Totals may not agree due to rounding.
**Expected rates the Board will adopt based on funding policy in statute.*
***Funded status calculated consistent with the valuation the projected rates are based on.*

APPENDIX D –MINIMUM RATE OFFSET

Please note that the minimum rate offset is only applicable when plan funding levels are lower than 110 percent for FYs 2026 through 2040. As of our most recent projection, the plan is not expected to fall below 110 percent as displayed in ***Appendix C****.*

The LEOFF 2 funding policy relies on the Aggregate cost method coupled with a minimum contribution rate. The minimum contribution rate, under this bill, is based on a percentage of the EAN Normal Cost rate[1]. The Aggregate cost method compares the plan's liability relative to the assets when determining contribution rates. Alternatively, the EAN Normal Cost rate is determined without consideration of the plan's assets.

The bill requires recognition of the assets transferred from the L2-BIA to the LEOFF 2 Trust Fund. Since the EAN Normal Cost rate calculation is performed without consideration of the plan's assets, the bill requires a contribution rate reduction, i.e., a minimum rate offset, to recognize the impact of the asset transfer. It also requires that it only apply to reduce the 90 percent and 100 percent minimum contribution rates.

This bill increases the cost, or value, of benefit service, both the amount earned as of the measurement date and benefit service active employees will earn in the future. The cost of benefit service earned as of the measurement date is reflected in the plan's Accrued Liability. The cost of benefit service that will be earned in the future is measured by the EAN Normal Cost contribution rate. It represents the level percentage of pay required to fund an additional year of benefit service. As such, for the purpose of the offset calculation, we focused purely on any excess assets that were transferred above and beyond the increase in the accrued liability from this bill (Benefit Improvement Accrued Liability). Those remaining assets are available to reduce the increase in future minimum rates. In actuarial terms, the remaining assets are available to pay for the increase in Present Value of Future Normal Costs (PVFNC).

Assets to Reduce Minimum Rates June 30, 2019, Measurement	
(Dollars in Millions)	
BIA Assets Transferred to Trust	$1,126
Benefit Improvement Accrued Liability	818
Remaining Assets to Reduce Minimum Rates	**$308**

We selected a fixed period of 15 years to amortize the remaining assets. The period is approximately equal to the average future working lifetime of the current plan members. This approach supports the bill's goal to prevent

[1] *Minimum rates are equal to 100 percent of the EAN Normal Cost when funded status is below 105 percent. The minimum rates lower to 90 percent of the EAN Normal Cost when funded status is between 105 percent and 110 percent. The minimum rates lower to 80 percent of the EAN Normal Cost when funded status exceeds 110 percent.*

contribution rate increases from the bill for current members of LEOFF 2 when funded status is below 110 percent.

We calculated a 15-year present value of projected current member salaries to produce the 15-year offset that can be applied to future minimum contribution rates.

Present Value of Salaries for Amortization June 30, 2019 LEOFF 2 Active Members		
(Dollars in Millions)		
Year	**Projected Salary**	**Present Value**
2019	$2,238	$2,164
2020	2,259	2,041
2021	2,264	1,911
2022	2,258	1,782
2023	2,243	1,654
2024	2,219	1,529
2025	2,188	1,409
2026	2,152	1,296
2027	2,113	1,189
2028	2,070	1,088
2029	2,024	995
2030	1,975	907
2031	1,923	826
2032	1,869	750
2033	1,812	679
Total	**$31,606**	**$20,221**

We calculate the offset by dividing the assets to reduce future minimum rates by the 15-year present value of member salaries. This provides the total minimum rate offset which is then split according to the LEOFF 2 funding structure of 50 percent member, 30 percent local employers, and 20 percent state.

Minimum Rate Offset Calculation June 30, 2019, Measurement	
(Dollars in Millions)	
Assets to Reduce Minimum Rates (A)	$308
15-Year Present Value of Salaries (B)	$20,221
Total Minimum Rate Offset (A) / (B)	**1.52%**

APPENDIX E –Risk Analysis

Assumptions Used

Our stochastic projections model considers how the contribution requirements can change under varying economic outlooks. For this analysis, we assume no funding shortfalls (or rather, all employers will make their full contributions) up to a defined system maximum contribution rate. Additionally, we assume no future benefit improvements to these retirement plans. Please see our Commentary on Risk for additional details on the underlying assumptions of the model.

Impact on Contributions

The potential for actual future contributions deviating from expected future contributions (also known as contribution risk) was considered. Under this bill, the plan is expected to make lower contributions due to the new funding policy. However, negative future economic outcomes may result in higher contributions than under current law.

We considered results from our projections model under thousands of economic scenarios to determine the likelihood of total employer contribution rates exceeding 10 percent of pay. We selected this threshold because it represents an approximate 20 percent increase in currently adopted contribution rates. For context, the total employer contribution rate adopted for FY 2023 and the 2023-25 Biennium is 8.53 percent.

Probability of Member Contribution Rates Above 10 Percent*

	2025	2030	2035	2040	2045	2050
Current Law	0%	7%	20%	28%	30%	30%
This Bill	0%	15%	29%	35%	39%	38%

**Members contribute a rate equal to the Total Employer Rate (Local Employer + State).*

As discussed earlier, this bill is expected to lower contribution rates if future experience matches our assumptions. However, the above results demonstrate the bill may increase contribution risk if the future economic outlook is worse than expected. In general, more plan liabilities and lower levels of contributions provide less protection in negative economic environments.

We did not focus on the statewide impacts from LEOFF 2 funding due to the relatively small percentage of General Fund State (GF-S) budget allocated to LEOFF 2 pensions. Based on our Commentary on Risk webpage, we estimated LEOFF 2 pensions are approximately 0.3 percent of the GF-S budget. For context, we estimated state retirement system pensions were 6.3 percent of the budget as of the measurement date of the analysis.

Impact to Funded Status

Another risk metric is the impact to future funded status of the plan. In general, the bill results in a higher likelihood of the plan falling below 90 percent funded status. We selected a 90 percent threshold, instead of 100 percent, because we expect natural variation in plan funded status around 100 percent as a result of normal investment return volatility. The following table summarizes this likelihood based on our 2,000 simulated economic scenarios.

Probability of Funded Status Less than 90%						
	2025	2030	2035	2040	2045	2050
Current Law	1%	11%	20%	23%	24%	24%
This Bill	2%	15%	25%	28%	28%	28%

LOCAL GOVERNMENT FISCAL NOTE

Department of Commerce

Bill Number: 1701 S HB	**Title:** LEOFF benefits

Part I: Jurisdiction-Location, type or status of political subdivision defines range of fiscal impacts.

Legislation Impacts:

- [ ] Cities:
- [ ] Counties:
- [ ] Special Districts:
- [ ] Specific jurisdictions only:
- [ ] Variance occurs due to:

Part II: Estimates

- [X] No fiscal impacts.
- [ ] Expenditures represent one-time costs:
- [ ] Legislation provides local option:
- [ ] Key variables cannot be estimated with certainty at this time:

Estimated revenue impacts to:

None

Estimated expenditure impacts to:

None

Part III: Preparation and Approval

Fiscal Note Analyst: Tammi Alexander	Phone: 360-725-5038	Date: 02/14/2022
Leg. Committee Contact:	Phone:	Date: 02/08/2022
Agency Approval: Allan Johnson	Phone: 360-725-5033	Date: 02/14/2022
OFM Review: Marcus Ehrlander	Phone: (360) 489-4327	Date: 02/14/2022

Part IV: Analysis

A. SUMMARY OF BILL

Provide a clear, succinct description of the bill with an emphasis on how it impacts local government.

CHANGES BETWEEN THIS VERSION AND PREVIOUS BILL VERSION:

The substitute bill changes the date of the actuarial valuation from annually by June 30 to only in even-numbered years to align with rate setting, adds the 80 percent minimum contribution rate, corrects references to LEOFF 2 Board-adopted rates, and changes the dates for the transfer of funds to and from the LEOFF 2 Benefits Improvement Account. Clarifies that the Office of the State Actuary, rather than the State Actuary, must calculate the offset reductions to the minimum rates, and those minimum rates are made subject to revision by the Legislature.

SUMMARY OF CURRENT BILL:

-Increases the retirement benefit multiplier for certain members of the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 (LEOFF 2) from 2 percent to 2.5 percent for years of service from 15 and up to 25
-Provides certain LEOFF 2 retirees with a one-time lump sum equal to $100 per month of service for retirees and a minimum of $20,000 for catastrophic and duty disability retirees, and duty death beneficiaries
-Establishes a minimum contribution rate and freezes contribution rates for two biennia at the rates adopted by the LEOFF 2 Board
-Creates a tiered minimum contribution rate for future biennia, from 80% to 100% of employer's normal cost, depending on the funded status of the plan, and subject to revision by the Legislature
-Requires the Washington State Investment Board to transfer the full balance of the Local Law Enforcement Officers' and Firefighters' System Benefits Improvement Account to the LEOFF 2 Retirement Fund
-Requires the Office of the State Actuary to calculate a contribution rate reduction to begin June 1, 2025, that will ensure member contribution rates do not increase as a result of the benefit improvement

B. SUMMARY OF EXPENDITURE IMPACTS

Briefly describe and quantify the expenditure impacts of the legislation on local governments, identifying the expenditure provisions by section number, and when appropriate, the detail of expenditures. Delineate between city, county and special district impacts.

This substitute bill will not impact local government expenditures because no action is required.

C. SUMMARY OF REVENUE IMPACTS

Briefly describe and quantify the revenue impacts of the legislation on local governments, identifying the revenue provisions by section number, and when appropriate, the detail of revenue sources. Delineate between city, county and special district impacts.

This substitute bill has no fiscal impact on local government revenues. To ensure that the funds transferred from the LEOFF 2 BIA are sufficient to pay the full cost of the benefit improvements in the bill, the Office State Actuary must calculate the rate reduction to be applied to the new minimum rates in time for it to go into effect on June 1, 2025. This offset calculation will not be applied to the 80 percent minimum rate created in the bill.

Sources:
Association of Washington Cities
House Bill Report, SHB 1701, Appropriations Committee (02/08/2022)
Washington State Association of Counties
Washington State Department of Enterprise Services
Washington State Department of Retirement Systems
Washington State Office of the State Actuary